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**REPORT OF THE AUDIT OF THE  
GRAYSON COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**April 21, 2006**

**Member Kentucky Society of CPA's  
American Institute of Certified Public Accountants**

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*Kathryn A. Thissen*  
*Certified Public Accountant*

To The People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Gary L. Logsdon, Grayson County Judge/Executive  
Honorable David Simon, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

Independent Auditor's Report

I have audited the Grayson County Sheriff's Settlement - 2005 Taxes as of April 21, 2006. This tax settlement is the responsibility of the Grayson County Sheriff. My responsibility is to express an opinion on the financial statement based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

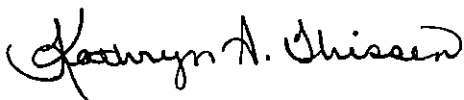
As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grayson County Sheriff's taxes charged, credited, and paid as of April 21, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, I have also issued my report dated November 2, 2006, on my consideration of the Sheriff's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Based on the results of my audit, I have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition and material weakness:

- Sheriff's Office Lacks Adequate Segregation Of Duties



Kathryn A. Thissen  
Certified Public Accountant

November 2, 2006

GRAYSON COUNTY  
DAVID SIMON, SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

April 21, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 485,832	\$ 906,204	\$ 2,861,852	\$ 995,982
Tangible Personal Property	60,413	117,989	287,830	251,766
Intangible Personal Property				86,144
Fire Protection	5,455			
Franchise Taxes Billed	48,405	93,039	239,650	
Additional Billings	174	326	1,021	354
Gas Property Taxes	2,091	3,776	12,316	4,279
Limestone, Sand, and Mineral Reserves	236	427	1,393	484
Bank Franchise	69,691			
Penalties	4,753	8,961	27,667	10,085
Adjusted to Sheriff's Receipt	(8)	33	10	20
Gross Chargeable to Sheriff	<u>\$ 677,042</u>	<u>\$ 1,130,755</u>	<u>\$ 3,431,739</u>	<u>\$ 1,349,114</u>
<u>Credits</u>				
Exonerations	\$ 1,180	\$ 2,139	\$ 6,894	\$ 2,557
Discounts	9,742	15,455	47,454	20,901
Delinquents:				
Real Estate	11,073	20,648	64,794	22,515
Gas Property	23	42	137	47
Tangible Personal Property	448	878	2,159	865
Intangible Personal Property				79
Franchise Taxes Delinquent	<u>225</u>	<u>425</u>	<u>1,114</u>	
Total Credits	<u>\$ 22,691</u>	<u>\$ 39,587</u>	<u>\$ 122,552</u>	<u>\$ 46,964</u>
Net Tax Yield	\$ 654,351	\$ 1,091,168	\$ 3,309,187	\$ 1,302,150
Less: Commissions *	<u>28,097</u>	<u>46,375</u>	<u>132,367</u>	<u>55,629</u>
Net Taxes Due	\$ 626,254	\$ 1,044,793	\$ 3,176,820	\$ 1,246,521
Taxes Paid	626,110	1,043,711	3,173,348	1,245,957
Refunds (Current and Prior Year)	<u>594</u>	<u>1,080</u>	<u>3,472</u>	<u>1,208</u>
Due District or (Refunds) Due Sheriff as of Completion of Fieldwork	<u>\$ (450)</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$ (644)</u>

\*\*

\* And \*\* See Page 3

The accompanying notes are an integral part of the financial statement.

GRAYSON COUNTY  
DAVID SIMON, SHERIFF  
SHERIFF'S SETTLEMENT – 2005 TAXES  
April 21, 2006

\* Commissions:

10% on	\$	10,000
4.25% on		3,037,669
4% on		3,309,187

\*\* Special Taxing Districts:

Library District	\$	<u>2</u>
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The accompanying notes are an integral part of the financial statement.

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 21, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAYSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 21, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of April 21, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 6, 2005, \$555,066 of the Sheriff's deposits of \$4,655,066 was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured - \$555,066

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2005 through April 21, 2006.

Note 4. Interest Income

The Grayson County Sheriff earned \$7,696 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Grayson County Sheriff collected \$39,780 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Grayson County Sheriff collected \$1,655 of advertising costs and \$5,970 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

## COMMENT AND RECOMMENDATION



GRAYSON COUNTY  
DAVID SIMON, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of April 21, 2006

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Sheriff's Office Lacks Adequate Segregation Of Duties

I noted the lack of an adequate segregation of duties for the internal control structure and its operation that, in my judgment, is a reportable condition. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. However, the lack of an adequate segregation of duties is hereby noted as a reportable condition and a material weakness pursuant to professional auditing standards.

Auditor discussed recommendations with the Sheriff relating to compensating controls to help offset the lack of segregation of duties which included the following:

- Cash recounted and deposited by the official
- Surprise cash counts by the official
- Agree monthly tax reports to revenue and expenditure ledgers
- Agree daily tax collection totals to revenue ledger and deposit slip
- Official delivers tax distribution checks and monthly tax reports to taxing districts and receives a signed receipt documenting delivery

*Sheriff's Response:*

*Due to limited staff, Sheriff is unable to establish an adequate segregation of duties.*

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

*Kathryn A. Thissen*  
*Certified Public Accountant*

The Honorable Gary L. Logsdon, Grayson County Judge/Executive  
Honorable David Simon, Grayson County Sheriff  
Members of the Grayson County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

I have audited the Grayson County Sheriff's Settlement - 2005 Taxes as of April 21, 2006, and have issued my report thereon dated November 2, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Grayson County Sheriff's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, I noted a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Grayson County Sheriff's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying schedule of comment and recommendation.

- Sheriff's Office Lacks Adequate Segregation Of Duties

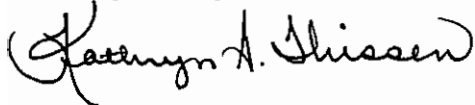
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's Settlement - 2005 Taxes, as of April 21, 2006 is free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of The Financial Statement  
Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink, reading "Kathryn A. Thissen". The signature is written in a cursive style with a large initial 'K'.

Kathryn A. Thissen  
Certified Public Accountant

November 2, 2006